

Message Text

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R 041819Z MAY 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 3481
INFO AMEMBASSY BONN
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C O N F I D E N T I A L SECTION 01 OF 03 LONDON 07359

E.O. 11652: GDS

TAGS: PGOV, PINT, PFOR, ELAB, EGEN, UK

SUBJECT: APRIL IN BRITAIN: CALM, BUT OUTLOOK VARIABLE

REF: LONDON 5581

SUMMARY - IN CONTRAST WITH THE PRECEDING MONTHS, APRIL WAS RELATIVELY TRANQUIL IN POLITICAL AND ECONOMIC, AS WELL AS CLIMATIC, TERMS. PHASE III PAY RESTRAINTS AND INDUSTRIAL UNREST, CONSEQUENTLY, HAD TO COMPETE WITH CRICKET, CROCUSES AND CRUMPET FOR HEADLINES. THE ASHFIELD AND GRIMSBY BY-ELECTIONS -- WHICH REVEALED THE CONTINUED DISAFFECTION OF LABOR VOTERS AND HEMORRHAGE OF LIBERAL SUPPORT -- AND EC DIRECT ELECTIONS DOMINATED THE POLITICAL SCENE. FINANCIAL INDICATORS FOR THE MONTH WERE SPRINGLIKE IN THEIR PROMISE, THOUGH TRADITIONAL DOUBTS ABOUT FRUITION REMAIN. PERIPATETIC FOREIGN SECRETARY DAVID OWEN TRAVELED TO SOUTHERN AFRICA TO GET THE RHODESIAN NEGOTIATIONS BACK ON TRACK AND ALSO VISITED THE MIDDLE EAST. HMG ANNOUNCED IT WOULD OPEN NEGOTIATIONS WITH ARGENTINA OVER THE FUTURE OF THE FALKLAND ISLANDS. IN NORTHERN IRELAND, A THREATENED GENERAL STRIKE PLACED THE STABILITY OF THAT PROVINCE IN THE BALANCE. END SUMMARY.

1. THE EASTER HOLIDAY PERIOD PREEMPTED A GOOD PART OF APRIL, AND ON ITS RETURN PARLIAMENT ENCOUNTERED LITTLE BUSINESS TO TEST THE GOVERNMENT'S ACCORD WITH THE LIBERAL PARTY. THE WHITE PAPER ON DIRECT ELECTIONS TO THE EUROPEAN PARLIAMENT WAS DEBATED INCONCLUSIVELY, THOUGH THE TORIES DECIDED TO FOLLOW THE GOVERNMENT'S CONFIDENTIAL

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LEAD (FORCED ON IT BY THE LIBERAL PACT) TO ALLOW A FREE VOTE ON THE VEXING PROPORTIONAL REPRESENTATION (PR) ISSUE. THE GOVERNMENT HAS NOT YET TIPPED ITS HAND ON THE ELECTORAL SYSTEM IT PREFERS, BUT IT SEEMS UNLIKELY COMMONS WILL GO FOR PR.

2. THE APRIL 28 BY-ELECTIONS IN ASHFIELD AND GRIMSBY PROVIDED ANOTHER TEST FOR THE GOVERNMENT'S PACT WITH THE LIBERALS, AND THE OUTCOME CONFOUNDED ALL OBSERVERS: THE CONSERVATIVES NARROWLY WON WHAT WAS REGARDED AN UNASSAILABLE LABOR SEAT IN ASHFIELD, WHILE LABOR JUST RETAINED THE GRIMSBY SEAT THAT HAD BEEN REGARDED AS VIRTUALLY CERTAIN TO FALL TO THE TORIES. IN BOTH CASES THE LIBERAL VOTE WAS SEVERELY SQUEEZED BY THE MAJOR PARTIES. POST ELECTION ANALYSIS SUGGESTS THAT THE UNEXPECTED RESULTS HINGED ON LOCAL PECULIARITIES, BUT CONFIRMED THE GOVERNMENT'S LOW POPULARITY AND LIBERAL VOTERS' REPUDIATION OF THE PACT WITH THE GOVERNMENT. THE EARLY MAY LOCAL ELECTIONS ARE EXPECTED TO RECONFIRM

THE SWING AGAINST LABOR, WHILE THE UPCOMING SAFFRON WALDEN BY-ELECTION SHOULD PROVIDE A CRITICAL TEST FOR THE LIBERALS, AS THEY ARE LYING IN SECOND PLACE IN THAT SAFE TORY SEAT. NEITHER THE LOCAL NOR BY-ELECTIONS, HOWEVER, ARE EXPECTED TO AFFECT THE PACT IN THE SHORT TERM, BUT COULD WELL BE DETERMINATIVE WHEN IT COMES UP FOR RENEWAL IN THE FALL.

3. THE WAGE RESTRAINT ISSUE GATHERED MOMENTUM IN APRIL FOLLOWING CHANCELLOR HEALEY'S LATE MARCH BUDGET. TUC LEADERS WERE DISCOMFITED BY THE BUDGET, PARTICULARLY THE IDEA OF MAKING A LARGE PART OF THE TAX CONCESSIONS CONTINGENT ON A THIRD ROUND OF PAY RESTRAINT AND BY THE FAILURE TO REFLATE TO MODERATE UNEMPLOYMENT, WHICH

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REACHED 5.6 PERCENT, THE HIGHEST APRIL SINCE THE WAR. CONTINUED INFLATION WAS ALSO A CAUSE OF CONCERN, STIMULATING DISQUIET ON THE SHOP FLOOR. THE TUC LEADERS, CONSEQUENTLY, SERVED NOTICE THAT THEY WERE NOT PREPARED TO NEGOTIATE A PHASE III UNTIL AFTER THE UNION CONFERENCE SEASON IN JULY AND DEMANDED THAT THE GOVERNMENT FIRST TAKE ACTION TO DEAL WITH PRICES AND UNEMPLOYMENT. THEY ALSO INSISTED THAT ANY PHASE III AGREEMENT BE FLEXIBLE ENOUGH TO REMEDY THE EROSION OF DIFFERENTIALS AND OTHER ANOMALIES ARISING FROM TWO YEARS OF FAIRLY RIGID PAY POLICY. WHILE THESE DEVELOPMENTS DO NOT PRECLUDE A THIRD ROUND OF WAGE RESTRAINT, THEY SUGGEST IT WILL BE HARDER TO REALIZE THAN ORIGINALLY THOUGHT AND, IF ATTAINED, BE LOOSER THAN THE GOVERNMENT WOULD LIKE.

4. IN THE FACTORIES, WORKERS MANIFESTED THEIR DISSATISFACTION WITH, INTER ALIA, PAY STRUCTURE, HIGH PRICES AND HIGH UNEMPLOYMENT BY HITTING THE BRICKS. MARCH STRIKE FIGURES (RELEASED IN APRIL) WERE THE HIGHEST SINCE 1966 AND INDICATED THAT BRITAIN'S HALCYON DAYS OF INDUSTRIAL RELATIONS ARE UNLIKELY TO CARRY THROUGH 1977.

5. THE RAPID RISE IN NORTH SEA OIL PRODUCTION AND THE CONTINUING DRAMATIC DECLINE IN SHORT-TERM INTEREST RATES (TO JUST BELOW 8 PERCENT) WERE THE MOST NOTICEABLE ECONOMIC DEVELOPMENTS. INFLATION CONTINUED TO INCH UP WITH THE ANNUAL RATE IN MARCH REACHING 16.7 PERCENT WHILE UNEMPLOYMENT REMAINS ON A PLATEAU AT 5.6 PERCENT.
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REAL INCOMES WERE SQUEEZED IN THE FIRST QUARTER AND CONTRIBUTED TO SHARPLY LOWER VOLUME (BY 2.1 PERCENT) OF CONSUMER EXPENDITURE. MUCH OF THE TRADE UNION PRESSURE FOR A MORE GENEROUS THIRD YEAR OF INCOMES POLICY CAN BE UNDERSTOOD IN THIS LIGHT. THE PATH TOWARD BALANCE OF PAYMENTS EQUILIBRIUM APPEARS CLEAR WITH FEBRUARY'S SMALL CURRENT ACCOUNT SURPLUS BEING FOLLOWED BY MARCH'S EQUALLY SMALL DEFICIT. THE TANGIBLE IMPROVEMENT IN THE FINANCIAL CLIMATE HAS FOSTERED A LESS TANGIBLE IMPROVEMENT IN OVERALL SENTIMENT AMONG INDUSTRIALISTS. WHETHER THIS CHANGE TRANSLATES INTO HIGHER INVESTMENT IS A MAJOR SOURCE OF UNCERTAINTY IN THE ECONOMIC OUTLOOK, ALTHOUGH CURRENT SURVEYS FORESEE AN UPTURN IN COMING MONTHS.

6. FOREIGN SECRETARY OWEN ENTERED THE AFRICAN THICKET WITH APLOMB, VISITING SEVEN AFRICAN CAPITALS AND MEETING WITH IAN SMITH WHO HAS SHATTERED THE ASPIRATIONS OF SO MANY OF OWEN'S PREDECESSORS. OWEN MADE TWO MAJOR POINTS IN HIS TRAVELS: 1) AS DISCUSSIONS ON AN INTERIM GOVERNMENT IN RHODESIA HAD FAILED, THE PARTIES SHOULD SKIP AHEAD TO NEGOTIATE AN INDEPENDENCE CONSTITUTION THAT WOULD TAKE EFFECT IN 1978; AND 2) THE U.S. IS PREPARED TO USE ITS INFLUENCE AND JOIN BRITAIN IN ENDEAVORING TO ASSURE IMPLEMENTATION OF A SETTLEMENT. OWEN'S PROPOSAL THAT THE U.S. PARTICIPATE IN A CONSTITUTIONAL CONFERENCE WAS REJECTED BY SOME AFRICAN LEADERS, AND IT IS CLEAR THAT A LOT MORE WORK MUST BE DONE BEFORE SUCH A CONFERENCE IS CONVENED. STILL, OWEN GAVE NEW IMPETUS TO THE SEARCH FOR SOLUTIONS IN SOUTHERN AFRICA, AND HIS PUBLIC ESTEEM GREW DUE TO HIS BOLD, YOUTHFUL AND ENERGETIC IMAGE. HE ALSO STRENGTHENED THE CONCEPT OF ANGLO-AMERICAN COOPERATION ON RHODESIA, WHICH WILL BE A PRINCIPAL SUBJECT OF JOINT US-UK CONSULTATION AND AC-

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TIVITY IN COMING MONTHS. RESUMING HIS TRAVELS, OWEN VISITED CAIRO AND DAMASCUS IN LATE APRIL, HAVING USEFUL TALKS WITH SADAT AND ASSAD ON THE ARAB-ISRAELI ISSUE. BILATERAL MATTERS WERE ALSO DISCUSSED.

7. BUT HMG'S FOREIGN POLICY INITIATIVES WERE NOT LIMITED TO OWEN'S EXPLOITS. IT ALSO ANNOUNCED IT WOULD BEGIN NEGOTIATIONS WITH ARGENTINA ABOUT THE FALKLAND ISLANDS, INCLUDING THEIR SOVEREIGNTY. BOTH SIDES, HOWEVER, WERE CAREFUL TO POINT OUT THAT THESE NEGOTIATIONS WERE WITHOUT PREJUDICE TO THEIR RESPECTIVE POSITIONS ON SOVEREIGNTY. THE PROSPECTS FOR PROGRESS ARE NOT PARTICULARLY PROMISING.

8. AT MONTH'S END, MILITANT PROTESTANT ELEMENTS IN NORTHERN IRELAND (NI) LED BY REV. IAN PAISLEY, THREATENED A GENERAL STRIKE UNLESS HMG ADOPTED A MORE AGGRESSIVE ANTI-IRA SECURITY POLICY AND AGREED TO REINSTITUTE PROTESTANT POLITICAL ASCENDANCY. BOTH GOALS ARE UN-ATTAINABLE AND SPECIOUS -- THE SECURITY SITUATION IS BETTER THAN IT HAS BEEN FOR A LONG TIME AND IMPROVING, WHILE PARLIAMENT SIMPLY WILL NOT AGREE TO A RETURN OF STATUS QUO ANTE IN NI. UNIONIST POLITICIANS AND MODERATE PROTESTANTS ALIKE JOINED WITH THE GOVERNMENT IN CONDEMNING PAISLEY'S INITIATIVE. HMG'S REACTION -- WITH THE FULL SUPPORT OF THE OPPOSITION -- WAS TOUGH. IT REINFORCED BRITISH FORCES IN THE PROVINCE, CALLED UP 8,000 NI RESERVES, AND PROMISED THE MILITARY WOULD TAKE OVER ESSENTIAL SERVICES, IF NECESSARY. ALTHOUGH MOST

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OBSERVERS BELIEVE THE STRIKE WILL ULTIMATELY COLLAPSE, THEY DO NOT DISCOUNT THE POSSIBILITY OF SERIOUS CONFRONTATION BETWEEN THE SECURITY FORCES AND PROTESTANT PARAMILITARIES OR THAT THE IRA MAY ATTEMPT TO EXPLOIT THE SITUATION.

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